

**REPORT OF THE AUDIT OF THE  
WARREN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**WARREN COUNTY CLERK**

**For The Year Ended**  
**December 31, 2009**

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

**Financial Condition:**

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had total revenues of \$22,543,880 which was a \$2,615,190 decrease from the prior year. Except for reimbursed expenses in the amount of \$3,043, the County Clerk paid 25% of revenues to the Warren County Fiscal Court in the amount of \$558,861. This was a decrease of \$38,558 from the prior year. In addition, expenditures of the 75% fund increased by \$30,227.

**Report Comment:**

- The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

**Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Michael O. Buchanon, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2009. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2010 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael O. Buchanon, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen", written in black ink.

Crit Luallen  
Auditor of Public Accounts

September 17, 2010



WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	37,975
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Fiscal Court		10,528
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	3,179,613
Usage Tax		9,808,394
Tangible Personal Property Tax		7,297,253
Web Renewals		41,999
Miscellaneous		6,386

Other-

Marriage Licenses		29,181
Miscellaneous Licenses		4,185
Lien Release Fees		45,840
Deed Transfer Tax		363,511
Delinquent Taxes		748,686
		21,525,048

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		46,060
Wills and Estate Settlements		2,053
Real Estate Mortgages		254,476
Chattel Mortgages and Financing Statements		187,416
Powers of Attorney		7,865
Lien Releases		64,016
Leases		1,642
Fixture Filing		1,504
Bail Bonds		110
Liens and Lis Pendens		24,196
Affordable Housing Trust		147,426
All Other Recordings		30,513

Charges for Other Services-

Candidate Filing Fees		1,310
Copywork		29,617
Notary Fees		33,564
		831,768

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
For The Year Ended December 31, 2009  
(Continued)

Revenues (Continued)

Other:

Miscellaneous	\$	1,201	
Postage Reimbursement		22,542	
Refunds/Overpayments		111,930	
Cash Drawer Shortage		(246)	\$ 135,427

Interest Earned			<u>3,134</u>
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Total Revenues			22,543,880
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	2,198,566
Usage Tax		9,513,810
Tangible Personal Property Tax		2,485,871
Web Renewals		41,999

Licenses, Taxes, and Fees-

Delinquent Tax		181,595
Legal Process Tax		86,530
Affordable Housing Trust		<u>147,420</u>

14,655,791

Payments to Fiscal Court:

Tangible Personal Property Tax	819,929	
Delinquent Tax	106,356	
Deed Transfer Tax	345,335	
Miscellaneous	<u>2,493</u>	1,274,113

Payments to Other Districts:

Tangible Personal Property Tax	3,699,563	
Delinquent Tax	<u>274,680</u>	3,974,243

Payments to Sheriff		3,002
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Payments to County Attorney		117,713
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The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
For The Year Ended December 31, 2009  
(Continued)

Expenditures (Continued)

Operating Expenditures:

Other Expenses-

Refunds	\$	114,259	
Bad Debt		823	
Election Expenses		756	
Miscellaneous		<u>1,218</u>	\$ <u>117,056</u>

Total Expenditures			\$ <u>20,141,918</u>
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Net Revenues			2,401,962
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Payments to State Treasurer:

75% Operating Fund		1,843,101	
25% County Fund		<u>558,861</u>	<u>2,401,962</u>

Balance Due at Completion of Audit			\$ <u><u>0</u></u>
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WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2009

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2009	\$ 717,622	\$	\$ 717,622
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,843,101		1,843,101
Fees Paid to State - County Funds (25%)		558,861	558,861
Total Funds Available	2,560,723	558,861	3,119,584
<u>Expenditures</u>			
Warren County Government		558,861	558,861
Personnel Services-			
Clerk's Salary	100,549		100,549
Clerk's Expense Allowance	3,600		3,600
Clerk's Training Incentive	3,528		3,528
Deputies' Salaries	925,045		925,045
Employee Benefits-			
Employer's Share Social Security	74,117		74,117
Employer's Share Retirement	154,947		154,947
Employer's Paid Health Insurance	106,165		106,165
Employer's Paid Life Insurance	569		569
Worker's Compensation	3,600		3,600
Contracted Services-			
Computer Equipment	201,499		201,499
Copy Machines	20,369		20,369
Printing and Binding	4,798		4,798
Microfilming	1,856		1,856
Materials and Supplies-			
Office Supplies	15,406		15,406
Other Charges-			
Clerk and Deputy Bonds	3,838		3,838
Conventions and Travel	8,379		8,379

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS  
For The Year Ended December 31, 2009  
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges- (Continued)			
Postage	\$ 20,000	\$	\$ 20,000
Miscellaneous	2,794		2,794
Books and Maps	1,233		1,233
Office Repair	3,972		3,972
Software License	968		968
Office Equipment Maintenance	1,884		1,884
Insurance	4,051		4,051
Tax Bill Preparation	11,858		11,858
Telephone	5,312		5,312
Capital Outlay-			
Office Equipment	2,869		2,869
Office Furnishings	7,187		7,187
Total Expenditures	1,690,393	558,861	2,249,254
Fund Balance - December 31, 2009	\$ 870,330	\$ 0	\$ 870,330

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2009

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2009  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

WARREN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2009  
 (Continued)

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The County Clerk's office was committed to the following lease agreements as of December 31, 2009:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Remaining Balance December 31, 2009
Software License and Service	\$ 5,450	60 months	7/21/2014	\$ 299,750
Hardware Rental and Service	9,627	60 months	7/21/2014	529,485
Totals	<u>\$ 15,077</u>			<u>\$ 829,235</u>



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Warren County Clerk for the year ended December 31, 2009, and have issued our report thereon dated September 17, 2010. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Warren County Clerk's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Warren County Fiscal Court, others within the entity, and Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized flourish at the end.

Crit Luallen  
Auditor of Public Accounts

September 17, 2010

COMMENT AND RECOMMENDATION



WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

A segregation of duties over accounts receivables or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

A lack of adequate segregation of duties exists over accounts receivable in the County Clerk's office. During our review of internal controls, we noted the County Clerk has no written policy for the allowance or collection of accounts receivable. We reviewed accounts receivable journals and noted employees who allow charges are also responsible for the collection of the accounts receivable. No one independent of accounts receivable maintenance verifies the validity of or subsequent collection of charges. During testing, we noted the lack of oversight over accounts receivable allowed for employees of the County Clerk to charge motor vehicle licenses and/or taxes for three customers in one month and not collect the charges until the following month. Two transactions were for first time registrations. The third transaction was for motor vehicle tax and license renewals. The customer was allowed to charge on January 23, 2009 and pay on February 13, 2009. Charging these motor vehicle tax and license renewals allowed the customer to avoid the penalties and interest prescribed by motor vehicle registration laws. In addition, we noted the lack of oversight over accounts receivable allowed an employee to process the transactions for a car dealership she works for part-time.

We recommend the County Clerk require: a) proper authorization for accounts receivable charges and collections, b) reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures, and d) transactions be processed by employees not employed by the customer.

*County Clerk's Response: I am in the process of writing a policy for accounts receivable. An employee will be in charge of reconciling the accounts.*

